

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Annual Compliance Review, 2021

Docket No. ACR2021

CHAIRMAN'S INFORMATION REQUEST NO. 3  
AND NOTICE OF FILING UNDER SEAL

(Issued January 19, 2022)

To clarify the basis of the Postal Service's FY 2021 *Annual Compliance Report* (ACR), filed December 29, 2021,<sup>1</sup> the Postal Service is requested to provide written responses to the following questions. Answers should be provided to the individual questions as soon as they are developed, but no later than January 26, 2022.

**Domestic Competitive Products**

1. Please see Attachment, filed under seal.

**Flats**

2. The Postal Service states that "[t]he growing disparity between revenue per piece and cost per piece for First-Class Mail Flats provided the impetus for increasing First-Class Mail Flats prices by 10.3 percent in Docket No. R2021-2 [and that] [t]he Postal Service does not anticipate that revenue per piece and cost per piece will continue to diverge following the latest price increase for First-Class Mail Flats, though the Postal Service will be mindful of 39 C.F.R. 3030.221 in its next price case." FY 2021 ACR at 9-10.

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<sup>1</sup> United States Postal Service FY 2021 *Annual Compliance Report*, December 29, 2021 (FY 2021 ACR).

- a. Please explain in detail why the Postal Service anticipates that revenue per piece and cost per piece will not continue to diverge given that First-Class Mail Flats volume has been declining for more than a decade and this trend has not reversed.
  - b. In addition to compliance with 39 C.F.R. § 3030.221, please provide the Postal Service's plan to improve the cost coverage of First-Class Mail Flats to bring it to a compensatory level. Please discuss in detail all new actions the Postal Service is taking or planning to take to reduce First-Class Mail Flats attributable costs, as well as any pricing strategy beyond the requirements of 39 C.F.R. § 3030.221 that the Postal Service intends to implement to ensure adequate revenues for the product to cover its attributable costs in future years.
3. In discussing USPS Marketing Mail Carrier Route, the Postal Service states that "[t]he decline in cost coverage appears, in large part, to be driven by the changing Commercial and Nonprofit mail mix." FY 2021 ACR at 17. The Postal Service further states that "[t]his mail mix change has blunted the price increases that the Postal Service has recently given Carrier Route." *Id.* at 18. In addition, the Postal Service states that "[w]hile Flats volume decreased by 330 million pieces, or 10.3 percent, with the volume distribution among presort and entry levels remaining similar to last year, the effect of the price increases on Flats cost coverage was to some degree offset by a change in Commercial versus Nonprofit mail mix." *Id.* at 20.
  - a. Please confirm that the change in mail mix is the single most important factor responsible for the cost coverage decline in FY 2021. If not confirmed, please discuss other factors in detail, rank them in order of relevance, and provide the reasons for the ranking.
  - b. Please confirm that the Postal Service anticipates the discussed change in volume mix between Commercial and Nonprofit mail to be temporary.

- i. If confirmed, please discuss whether this change in volume mix will result in any meaningful improvement to the USPS Marketing Mail Flats cost coverage in the long term.
  - ii. If not confirmed, please discuss all remedial action(s) that the Postal Service is undertaking to prevent future increases in Flats cost coverage from being offset by changes in Commercial versus Nonprofit mail mix.
4. Please refer to the discussion on the Commission Flats Directive in the FY 2021 ACR where the Postal Service states that “[g]oing forward, the Postal Service intends to continue complying with 39 C.F.R. § 3030.221. Therefore, the Postal Service’s schedule of future price increases is that Flats prices will increase at least 2 percentage points above the USPS Marketing Class average in each Market Dominant price case until such time as either there is significant cost coverage improvement so that Flats is no longer subject to Rule 3030.221 or the Commission otherwise revises its pricing directive.” *Id.* at 32-33.
  - a. In addition to compliance with 39 C.F.R. § 3030.221, please provide the Postal Service’s plan to improve the cost coverage of USPS Marketing Mail Flats to bring it to a compensatory level.
  - b. Please discuss in detail all new actions the Postal Service is taking or planning to take to reduce USPS Marketing Mail Flats attributable costs, as well as any pricing strategy beyond the requirements of 39 C.F.R. § 3030.221 that the Postal Service intends to implement to ensure adequate revenues for the product to cover its attributable costs in future years.
5. When describing the Automated Flats Sorting Machine 100, the Postal Service states that “[b]ecause setup and breakdown activities are largely invariant to

processed volume, the continued volume declines necessarily lead to higher unit mail processing costs.” *Id.* at 20.

- a. Please provide an estimate of the “setup and breakdown activities” costs as a proportion of mail processing costs for all flat-shaped mail pieces in FY 2015 through FY 2021.
  - b. Using distribution keys and entry point assumptions<sup>2</sup> from Library Reference USPS-FY21-11, please provide an estimate of “setup and breakdown activities,” disaggregated by product, for FY 2015 through FY 2021.
6. The Postal Service states that “[c]ost coverages for the Periodicals class overall decreased from 56.92 percent in FY 2020 to 53.24 percent in FY 2021.” *Id.* at 38.
- a. In addition to compliance with 39 C.F.R. § 3030.221, please provide the Postal Service’s plan to improve the cost coverage of Periodicals and bring it to a compensatory level.
  - b. Please discuss in detail all new actions the Postal Service is taking or planning to take to reduce Periodicals attributable costs, as well as any pricing strategy beyond the requirements of 39 C.F.R. § 3030.221 that the Postal Service intends to implement to ensure adequate revenues for the product to cover its attributable costs in future years.

By the Chairman.

Michael Kubayanda

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<sup>2</sup> See Library Reference USPS-FY21-11, December 29, 2021, Excel file “USPS-FY21-11 MM & CR.xlsx,” tab “MADC NONAUTO MODEL,” cells A11:O16.